

1) According to IAS 1, *Presentation of Financial Statements* which **two** of the following are objectives of primary financial statements?

- ☐ To show the results of management's stewardship of the resources entrusted to it
- ☐ To provide a basis for valuing the entity
- ☐ To provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions
- ☐ To facilitate comparison of financial performance between entities operating in different industries
- ☐ To assist management and those charged with governance in making timely economic decisions about deployment of the entity's resource

2) Which **three** of the following are fundamental principles of the IESBA Code of Ethics for Professional Accountants?

- ☐ Integrity
- ☐ Objectivity
- ☐ Independence
- ☐ Confidentiality
- ☐ Courtesy

3) A business has the following payroll costs for a month:

	£
Gross pay	38,600
Income tax	5,400
Employees' national insurance	3,100
Employer's national insurance	3,500

What is the wages cost to the business for the month?

- ☐ £38,600
- ☐ £42,100
- ☐ £47,100
- ☐ £50,600

4) Richard is a VAT registered trader whose sales and purchases carry VAT at the standard rate of 20%. Richard sells a customer goods on credit for £4,800 exclusive of VAT.

What is the double entry to record this ?

- ☐ Debit Sales £4,800, Debit VAT £960, Credit Receivables £5,760
- ☐ Debit Sales £4,000, Debit VAT £800, Credit Receivables £4,800
- ☐ Debit Receivables £5,760, Credit Sales £4,800, Credit VAT £960
- ☐ Debit Receivables £4,800, Credit Sales £4,000, Credit VAT £800

5) A business which is registered for VAT received the following invoice from one of its VAT registered suppliers:

Invoice:	7035	
Date:	20 December 20X0	
	Goods: 100 @ £10	
	Less trade discount	

A further discount of £50 will be allowed if payment is received within 14 days.

Assume the business is not expected to make the payment within 14 days and the VAT rate is 20%.

What amount of VAT should have been charged on the invoice?

- ☐ £180
- ☐ £190
- ☐ £200
- ☐ £210

6) Which of the following would be a credit balance in the trial balance?

- ☐ Bank overdraft
- ☐ Drawings
- ☐ Purchases
- ☐ Delivery outwards

7) Plym plc is a VAT registered retailer. All transactions attract VAT at the rate of 20%. For the year to 30 June 20X7, Plym plc made purchases of £69,600 including VAT and made sales of £89,400 excluding VAT. There was no change in the figures for opening and closing inventory in the statements of financial position as at 30 June 20X6 and 20X7.

What was Plym plc's gross profit for the year ended 30 June 20X7?

☐ £19,800

☐ £4,900

☐ £31,400

☐ £16,500

8) Which **three** of the following situations are likely to result in a suspense account being used to record a transaction?

☐ A receipt of £135 from a customer who unexpectedly, but correctly, has taken a 3% prompt payment discount.

☐ A payment of £84 made to a supplier in respect of an invoice of £70 plus VAT at 20%.

☐ A receipt of £3,500 from the disposal of a van with a carrying amount of £2,700.

☐ A journal entry posted by the bookkeeper to write off an irrecoverable debt of £55 in which the bookkeeper was unsure where to record the credit entry.

☐ A payment made to a supplier for £90.25 in respect of an invoice for £95 on which a prompt payment discount of 5% was expected to be taken.

9) Smyths's draft profit for the year is £324,700. After the draft profit was calculated, the following issues were discovered.

- Debts of £6,800 should have been written off as irrecoverable at the year end, but the journal entry was not posted.
- The accounting system had automatically calculated and recorded depreciation, but the standing data was found to be incorrect. The depreciation rate for cars should have been updated to 20% straight-line at the start of the year, but was left as 25% straight-line in error. The balance on the car cost account at the year end was £24,000. There were no additions or disposals of cars in the year. What is Smyths's corrected profit for the year after accounting for the above issues?

☐ £323,500

☐ £319,100

☐ £313,100

☐ £316,700

10) Indicate whether the following statements are true or false.

In a period of rising prices, applying the first in first out (FIFO) method to determine the cost of inventories will give a lower gross profit figure than the average cost (AVCO) method.

☐ True

☐ False

Closing inventory is a debit in the statement of profit or loss.

☐ True

☐ False

11) In preparing its financial statements for the current year, a company's closing inventory was understated by £300,000.

What will be the effect of this error if it remains uncorrected?

☐ The current year's profit will be overstated and next year's profit will be understated.

☐ The current year's profit will be understated but there will be no effect on next year's profit.

☐ The current year's profit will be understated and next year's profit will be overstated.

☐ The current year's profit will be overstated but there will be no effect on next year's profit.

12) Percy plc started trading on 1 April 20X4 and made a loss in the year to 31 March 20X5. The cost of inventory shown in Percy plc's statement of financial position at 31 March 20X5, using the AVCO basis, was £6,420. Had the FIFO basis been used, the cost would have been £8,080.

What is the effect of adopting the FIFO basis on Percy plc's financial statements for the year ended 31 March 20X5?

☐ decreases losses and decrease current assets by £1,660

☐ increase current assets and decrease losses by £1,660

☐ increase capital and decrease current assets by £1,660

☐ increase current assets and increase losses by £1,660

13) Meridi plc has an allowance for receivables of £500 on 1 July 20X7. During the year to 30 June 20X8 the following events take place:

1. A cheque for £92 was recorded and correctly banked, but was returned unpaid on 29 June 20X8. No entries have yet been made for this return. The directors wish to write the debt off as irrecoverable.
2. An allowance for receivables of £475 is required at the year end.
3. A cheque received for £58 in respect of an amount written off in January 20X7 was recorded in the cash at bank account but the suspense account was used to record the other side of the transaction. What is the journal entry required to account for the above issues?

☐ Debit Cash at bank £92, Credit Suspense £58, Credit Irrecoverable debts expense £9, Credit Allowance for receivables £25

☐ Debit Suspense £58, Debit Receivables £92, Credit Irrecoverable debts expense £33, Credit Cash at bank £92, Credit Allowance for receivables £25

☐ Debit Suspense £58, Debit Irrecoverable debts expense £67, Debit Allowance for receivables £25, Credit Cash at bank £92, Credit Receivables £58

☐ Debit Suspense £58, Debit Irrecoverable debts expense £9, Debit Allowance for receivables £25, Credit Cash at bank £92

14) The retained earnings of Camel plc at 1 January 20X7 were £1,055,000. The retained earnings at 31 December 20X7 are £1,210,000. The profit for the year is £387,000.

During the year Camel made a 1 for 2 bonus issue, with £65,000 paid from retained earnings.

What was the total dividend paid during the year?

☐ £Nil

☐ £167,000

☐ £232,000

☐ £297,000

15) Afua plc sells small electrical items. It has a year end date of 31 December 20X7. On 28 December it accepted an order from a credit customer for 100 toasters at a price of £35 per toaster. On 30 December, Afua plc dispatched 60 toasters to the customer but they were not received by the customer until 1 January 20X8. Afua plc remains responsible for the goods until they are delivered to the customer. The remaining 40 toasters were dispatched on 2 January 20X8 and received by the customer on 4 January 20X8.

How much revenue should Afua plc recognise in respect of the sale of toasters in the year ended 31 December 20X7?

☐ £3,500

☐ £2,100

☐ £1,400

☐ Nil

16) The following trade receivables account has been prepared by an inexperienced bookkeeper and may contain errors of principle.

TRADE RECIEVABLES				
20X3		£	20X3	
1 Jan	Balance	284,680	31 Dec	Ca
31 Dec	Sales	194,040		Co
	Sales (discounts given to customers)	3,660		
	Irrecoverable debts expense	1,800		Ba
		484,180		

An outstanding debt of £4,920 at 31 December 20X3 is to be written off.

What is the correct amount of trade receivables that should appear on the statement of financial position at 31 December 20X3?

☐ £289,350

☐ £291,350

☐ £287,750

☐ £297,590

17) A gas accrual for £400 at the year end was treated as a prepayment in a business's statement of profit or loss.

As a result the profit was:

- ☐ understated by £400
- ☐ overstated by £400
- ☐ understated by £800
- ☐ overstated by £800

18) Jeremiah plc is a newsagent business and is preparing its financial statements for the year ended 31 August 20X8. There are three outstanding matters that the company has not yet accounted for.

(1) A subscription of £240 for the year ending 31 January 20X9, paid and accounted for by Jeremiah plc on 1 July 20X8.

(2) Advance payments (deposits) of £75 recorded as received from customers in respect of magazines on order but not yet received to the customers at the year end.

(3) An unpaid property tax demand for the six months to 30 September 20X8 for £5,400.

Which **three** of the following balances will appear in Jeremiah plc's statement of financial position as at 31 August 20X8?

- ☐ Deferred income £75
- ☐ Accrued income £75
- ☐ Prepayment £100
- ☐ Accrual £4,500
- ☐ Accrual £900
- ☐ Prepayment £140

19) The asset register showed a total carrying amount of £67,460. A non-current asset costing £15,000 had been sold for £4,000, making a loss on disposal of £1,250.

The balance on the asset register after accounting for the disposal is:

- ☐ £42,710
- ☐ £51,210
- ☐ £53,710
- ☐ £62,210

20) Sam plc's statement of profit or loss for the year ended 31 December 20X4 showed a profit for the year of £83,600. It was later found that £18,000 paid for the purchase of a van on 1 January 20X4 had been debited to the motor expenses account. It is the company's policy to depreciate vans at 25% per year on the straight-line basis.

What is the profit for the year ended 31 December 20X4 after adjusting for this error?

☐ £106,100

☐ £70,100

☐ £97,100

☐ £101,600

21) An extract from a statement of cash flows prepared by a trainee accountant is shown below.

Cash flows from operating activities

	£m
Profit before tax	28
Depreciation	(9)
Decrease in inventories	13
Increase in trade receivables	(4)
Increase in trade payables	(8)
Cash generated from operations	20

Which of the following criticisms of this extract are correct?

- (1) Depreciation charges should have been added, not deducted.
- (2) Decrease in inventories should have been deducted, not added.
- (3) Increase in trade receivables should have been added, not deducted.
- (4) Increase in trade payables should have been added, not deducted.

☐ 2 and 4

☐ 2 and 3

☐ 1 and 3

☐ 1 and 4

22) A sole trader prepares financial statements each year to 31 May. His rent is payable quarterly in advance on 1 January, 1 April, 1 July and 1 October. Local property taxes are paid each year in two equal instalments on 1 April and 1 October.

His annual rental for the calendar years 20X6 and 20X7 was £4,800 and £5,400 respectively but on 1 January 20X8 this was increased to £6,600 per annum. Local property tax for the last three years has been as follows:

	£
Year commencing 1 April 20X6	3,600
Year commencing 1 April 20X7	3,900
Year commencing 1 April 20X8	4,500

In preparing his financial statements for the year ended 31 May 20X8, the charge to the profit and loss account from his rent and local property tax account would be:

- ☐ £9,900
- ☐ £10,100
- ☐ £10,200
- ☐ £10,300

23) Gordon, Hilary and Indi are in partnership, sharing profits in the ratio 3:1:1, after charging salaries of £20,000 per year each for Hilary and Indi. On 1 January 20X4 they agreed to change the profit-sharing ratio to 3:2:1 and to discontinue Hilary's salary. Indi's salary continued unchanged. The partnership profit for the year ended 30 June 20X4 was £380,000, accruing evenly over the year.

How should the £380,000 profit be divided among the partners?

☐ Gordon £192,000, Hilary £104,000, Indi £84,000

☐ Gordon £192,500, Hilary £103,333, Indi £84,167

☐ Gordon £209,000, Hilary £101,333, Indi £69,667

☐ Gordon £179,000, Hilary £111,333, Indi £89,667

24) Harry has been unable to calculate his business' profit or loss for the year ended 31 December 20X8 as fire destroyed most of his accounting records. He has, however, been able to provide the following information.

1. Net assets at 31 December 20X7 were £23,000 and £32,500 at 31 December 20X8.
2. He introduced capital during the year of £4,000 cash.
3. He took cash drawings of £2,500 and goods with a selling price of £800. The cost of the goods was £750.

What was Harry's profit or loss for the year ended 31 December 20X8?

☐ £8,750 profit

☐ £(1,750) loss

☐ £9,800 profit

☐ £(2,750) loss

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1. Net assets at 31 December 20X7 were £23,000 and £32,500 at 31 December 20X8.
2. He introduced capital during the year of £4,000 cash.
3. He took cash drawings of £2,500 and goods with a selling price of £800. The cost of the goods was £750.

What was Harry's profit or loss for the year ended 31 December 20X8?

☐ £8,750 profit

☐ £(1,750) loss

☐ £9,800 profit

☐ £(2,750) loss

Castle plc

As at 31 May 20X1 and 31 May 20X2 Castle plc had the following summarised statements of financial position.

	20X2		20X1	
	£	£	£	£
ASSETS				
Non-current assets				
Property plant and equipment				
Cost	3,284,000		3,091,000	
Accumulated depreciation	(2,198,000)		(2,001,000)	
		1,086,000		1,090,000
Intangibles assets				
Cost	9,360,000		8,645,000	
Accumulated amortisation	3,690,000		(2,715,000)	
		5,670,000		5,930,000
Investments		2,145,000		127,000
		8,901,000		7,147,000
Current assets				
Investments	60,000		40,000	
Inventories	1,112,000		1,086,000	
Trade receivables	948,000		840,000	
Prepayments	95,000		108,000	
Cash	299,000		182,000	
		2,514,000		2,256,000

Total assets	11,415,000	9,403,000
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital	1,800,000	1,000,000
Share premium	1,543,000	1,421,000
Retained earnings	2,689,000	746,000
	6,032,000	3,167,000
Non-current liabilities		
15% debenture loan	3,000,000	4,500,000
Preference shares	100,000	0
Current liabilities		
Trade payables	1,417,000	896,000
Accruals	225,000	337,000
Income tax payable	641,000	503,000
	2,283,000	1,736,000
Total equity and liabilities	11,415,000	9,403,000

Castle's statement of profit or loss for the year ended 31 May 20X2 was as follows.

	£
Revenue	8,646,000
Cost of sales	(3,705,000)
Gross profit	4,941,000
Distribution costs	(465,000)
Administrative expenses	(621,000)
Profit from operations	3,855,000
Finance costs	(563,000)

Investment income	78,000
Profit before tax	3,370,000
Income tax	(684,000)
Profit for the period	2,686,000

The following additional information is relevant.

1. During the year plant and equipment with an original cost of £1,201,000 and a carrying amount at the date of disposal of £496,000 was sold at a loss of £189,000. As at 31 May 20X2 £165,000 of the sale proceeds had yet to be received and is included within trade receivables. As at 31 May 20X1 the corresponding figure in respect of disposals made during the year then ended was £79,000, which was received in full in June 20X1.
2. As in the previous year, all acquisitions of property, plant and equipment made during the year were paid for in cash at the date of acquisition. However, included within trade payables at 31 May 20X2 is £376,000 (20X1 – £nil) relating to the acquisition of intangible assets.
3. There were no disposals of intangible assets or investments during the year. Trade receivables at 31 May 20X2 include £10,000 (20X1 – £8,000) in respect of interest receivable on investments.
4. As at 31 May 20X1 the ordinary share capital of Castle plc consisted of 1 million shares, each with a £1 nominal value. The following day the company made a 1 for 2 bonus issue of 500,000 shares (utilising available profits).
5. Dividends of £243,000 were paid during the year ended 31 May 20X2.
6. The current asset investments are government bonds and management has decided to class them as cash equivalents.
7. During the year Castle plc issued 100,000 £1 redeemable preference shares.
8. Included within accruals at 31 May 20X2 is £125,000 (20X1 £75,000) for interest payable.

9. **Requirement**

10. **Prepare a statement of cash flows for the year ended 31 May 20X2 in accordance with IAS 7.**

£

Cash flows from operating activities

Profit before tax

Investment income

Finance costs

Depreciation

Amortisation

Gain/loss on sale of property, plant and equipment

Movement in inventories

Movement in trade receivables

Movement in prepayments

Movement in trade payables

Movement in accruals

Cash generated from operations

Tax paid

Interest paid

Net cash from/used in operating activities

11.

Cash flows from investing activities

Purchase of property, plant and equipment

Purchase of intangible assets

Purchase of investments

Proceeds from sale of property, plant and equipment

Interest received

Net cash from/used in investing activities

12.

Cash flows from financing activities

Proceeds from issue of shares

Dividends paid

Movement in borrowings

Net cash from/used in financing activities

13.

Net increase/decrease in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

